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SUBJECT: TRANSPARENCY OF MONTENEGRIN MILITARY SPENDING

REF: STATE 61929

¶1. (U) This cables responds to requests for information in Ref. Montenegro only established its Ministry of Defense in November 2006, following independence in June 2006. A number of key laws in the defense area remain in draft, such as the Law on Defense, the Law on the Armed Forces, and the Law on Military Doctrine. The GoM understands the importance of transparency in military budgeting and spending, but the laws and procedures are still nascent.

¶A. General Overview of Auditing Procedures

¶2. (U) The first Montenegrin budget to include defense expenditures was adopted in December 2006.

(i) On the Basis of the Law on Budget, the Department for Financial and Economic Affairs of the Defense Ministry is responsible for procurement, and oversight of spending within the Ministry. The Minister of Defense has authorized his deputy (currently one, another may be added) and the Chief of Staff to approve financial transactions on behalf of the Defense Ministry.

The funds are spent according to the specific purposes and the various needs at the level of the sectors. Each of the six sectors in the Defense Ministry comes up with spending proposals in accordance with defined needs.

Within the Defense Ministry there is a Department for Property and Legal Issues to ensure compliance with the law during the procurement procedure, specifically the Law on Public Procurements. However, procurements of weaponry are carried out by the closed tenders.

(ii) The expenditures of the Defense Ministry are internally audited by the Financial Department of the Defense Ministry. The Financial Department consists of two Bureaus: Bureau for Analytical Planning and the Bureau of Financial and Economic Affairs. According to the existing regulations, Defense Ministry has also envisaged an (additional) Inspection and Internal

Control Bureau which has not yet become functional.

All payments of the Defense Ministry are made through the Treasury of the Finance Ministry. All six sectors within the Defense Ministry are required to submit reports to the Financial Department of the Defense Ministry before and after payments. The Bureau of Analytical Planning is required to assess the need for the item or service which is to be purchased while the Bureau of Financial and Economic Affairs is responsible for auditing the financial transactions.

Military expenditures will also be externally audited annually by the State Audit Institution, an extant independent body. The Institution audits all central government expenditures. Post considers the Institution to be a functioning system.

(iii, iv) Audits conducted by the State Audit Institution are required to be provided to the Parliament. The ministers of the various ministries all receive copies of the requests as well. The Minister and Deputy Minister of Defense are civilians (neither were career military, or general officers).

Within the Defense Ministry, the audits are further reviewed by the Defense Ministry's Financial Department, with 15 civilians and five military.

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(v) There is an existing framework for conducting annual audits of government expenditures. With the relevant laws on the defense sector still in draft, Montenegrin law at this time does not explicitly include military expenditures among the government expenditures to be audited. Post fully expects that the law will subject military expenditures to the same auditing requirements as other government expenditures. Passage of the relevant laws is expected in 2007, in time to permit auditing of the first defense budget, passed in December 2006.

The existing framework is regulated by: Law on Public Procurements, the Decree on Compensation of Travel Expenditures for Army, and the Decree on Earnings of Civil Servants. Fiscal year lasts until December 31, and the Annual Balance Sheet is to be submitted the following year, by April 1.

(vi) Government policy requires annual audits of all funds received by the government, to include the military. Again, with the relevant laws on the defense sector still in draft, Montenegrin law at this time does not explicitly include military receipts among the government receipts to be audited. Post fully expects that the law will subject military receipts to the same auditing requirements as other government receipt.

Deficiencies in the auditing of military expenditures and receipts are the result of delays in passing relevant legislation. The parliament has deferred such legislation until the Republic of Montenegro adopts its first constitution as an independent state. Adoption of the constitution has been delayed by non-defense related issues.

Additionally, the Defense Ministry is still lacking some human resources in almost all segments of its activities.

(U) B. The Military Budget And On-Budget And Off-Budget Revenues And Expenses

13. (U) (i) The defense budget of the Republic of Montenegro includes only outlays for the armed forces. Security forces, mainly police, are funded under a separate budget.

(ii) To post's knowledge there are no significant off-budget military receipts. Montenegro is decreasing the size of its military, and disposing of excess property and equipment (including weapons). Proceeds from the sales are publicly disclosed and recorded as government revenue.

1C. THE MILITARY COMPONENT OF THE NATIONAL BUDGET

14. (U) (i) Defense expenditures in 2007 are 2.04 percent of GDP, according to the GoM May 2007 NATO Presentation Document. In the mid-term, the GoM has stated a goal of keeping defense allocations at the 2 percent of GDP level. The GoM seeks to pursue defense reform, "without putting at risk the living standards of the citizens and our economic growth."

(ii) A Security Oversight Board was established in the Montenegrin Parliament in late 2005. With Montenegrin independence, Defense issues were added to its mandate. The Board includes MPs from the ruling coalition and the opposition. The Board reviews defense and security policy, including funding, and makes recommendations to the Parliament at large. The annual GoM budget, including defense and security, is proposed by the Government and passed into law by the

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Parliament. The budget is published, and posted on the GoM website. The fiscal year matches the calendar year.
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